

Employer Responsibility for Limit Testing

Limits on Tax-Deferred Plans Generally

All tax-deferred retirement plans are subject to limits on the amount of compensation that can be deferred or otherwise contributed by or on behalf of a participant. When an employer offers multiple plans or vehicles for retirement savings, including 457 plans, 403(b) plans and 401(k) plans, to its employees, care must be taken to coordinate the various applicable limits.

Elective Deferral (402(g)) Limits for 2003

401(k)	\$12,000	\$2000 Catch-up	No coordination with 457.
457	\$12,000	\$2000 Catch-up	No coordination with 403(b) or 401(k)
403(b)	\$12,000	\$2000 Catch-up	No coordination with 457

These limits will increase over the next three years as follows:

Year	Elective Deferral	Catch-up
2004	\$13,000	\$3,000
2005	\$14,000	\$4,000
2006	\$15,000	\$5,000

After 2006, the deferral may be adjusted for inflation annually in \$500 increments.

Coordination Between Plans

Participants may contribute the maximum contribution into both a 401(k) and a 457 plan, or a 457 plan and 403(b) plan (up to \$24,000 or \$28,000 if age 50 in 2003), but they must coordinate the limits if contributing to a 401(k) and a 403(b) and may only contribute a total of \$12,000 (\$14,000 if age 50) between both plans.

Catch-Up Provisions

Participant may contribute an additional \$2,000 to a 401(k), 457, and/or 403(b) if he/she is at least 50 years of age during 2003.

Governmental 457(b) plans contain a special "catch-up" allowance called the "final three-year provision" for those approaching retirement (assuming they haven't contributed the maximum amount in prior years). This provision, which used to limit participants to an additional \$15,000 over a three-year period, now permits up to 200% of the elective deferral limit, or \$24,000 in 2003. This catch-up provision kicks in during the three years prior to "normal" retirement age (as defined by the plan).

Example: If a worker will reach normal retirement age by 2009, he or she can take advantage of the final three-year provision in years 2006, 2007, and 2008. Those who qualify can defer \$12,000 to the 403(b) or 401(k) plus \$24,000 to the 457(b) for a total deferral of \$36,000.

Additionally, anyone age 50 or older can contribute an additional \$2,000 (in 2003) to the 403(b) or a 401(k). This means a worker could conceivably make \$38,000 in contributions during 2003.

The 457(b) also allows workers age 50 or older to make catch-up contributions. However, participants who take advantage of the final three-year provision cannot also take advantage of the age 50 catch-up provision under the 457(b) plan.

The 403(b) has its own additional catch-up provision called the "15-year rule." This special catch-up provision allows participants to increase their annual contribution by \$3,000 more than the current \$12,000 limit (as of 2003). To qualify, workers must have completed at least 15 years of service with the same employer (years of service need not be consecutive), and cannot have contributed more than an average of \$5,000 in previous years.

Contributions made under the 15-year rule cannot exceed \$3,000 per year, up to a \$15,000 lifetime maximum (under current rules). Add that to the aforementioned \$38,000, and a worker could make \$41,000 in contributions during 2003.

Annual Additions (415(c)) Limits

An employer may choose to match a participant's contributions to any 401(k) or 403(b) plans.

In a 401(k) plan or 403(b) plan, the employer contribution, together with any voluntary contributions made by the participant, may not exceed the participant's gross salary or \$40,000, whichever is less. The 415 limits are not applicable to 457 plans, which generally cannot receive employer contributions.